

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
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R 072346Z APR 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 6967
INFO AMCONSUL MONTREAL
ALL OTHER CONGENS IN CANADA POUCH

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E.O. 11652:N/A
TAGS: ECON, CA
SUBJECT: FEDERAL BUDGET TO BE PRESENTED APRIL 10.

1. FINANCE MINISTER CHRETIEN ANNOUNCED THE FEDERAL BUDGET FOR THE CURRENT FISCAL YEAR WILL BE PRESENTED TO PARLIAMENT MONDAY EVENING, APRIL 10.
2. COMMENT: POLITICAL OPPOSITION PARTIES HAVE BEEN PRESSING GOVERNMENT TO PRESENT BUDGET FOR SEVERAL MONTHS, AS STATE OF THE ECONOMY IS EXPECTED TO BE CENTRAL ISSUE IN FEDERAL ELECTIONS NOW EXPECTED IN JUNE.
3. CONTENT OF BUDGET WILL PRESENT GOC WITH DELICATE POLITICAL AND ECONOMIC BALANCING ACT. POLITICALLY, TORIES HAVE TAKEN PUBLIC POSITION FAVORING CDOLS 2 BILLION TAX CUT TO STIMULATE CONSUMPTION AND INVESTMENT, BUT CONTINUING GOVERNMENT SPENDING RESTRAINT. NDP ALSO FAVORS LARGE TAX CUT, BUT WOULD ALSO GREATLY INCREASE SPENDING FOR PUBLIC WORKS AND DIRECT JOB CREATION PROGRAMS TO REDUCE 8.3 PERCENT UNEMPLOYMENT. NDP BELIEVES TAX CUTS

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SHOULD FAVOR ONLY CONSUMERS, NOT BUSINESS, AS CUT IN BUSINESS TAXES TO STIMULATE INVESTMENT IS FUTILE GIVEN CURRENT LARGE DEGREE OF UNUSED INDUSTRIAL CAPACITY.

4. ECONOMICALLY AND FINANCIALLY, MASSIVE TAX CUTS OR MAJOR INCREASE IN SPENDING WOULD NOT SEEM TO BE IN THE CARDS. (PC POLICY ADVISOR TOLD EMBOFF HE THOUGHT TORY

PROPOSAL WAS "IRRESPONSIBLE" ON ECONOMIC GROUNDS, EVEN
THOUGH IDEA MIGHT BE POLITICALLY POPULAR AT ELECTION
TIME.) WITHOUT MAJOR POLICY CHANGE, FEDERAL DEFICIT IN
NEXT FISCAL YEAR IS OPTIMISTICALLY FORECAST BY CHRETIEN
AT CDOLLS 11 BILLION, ABOUT 4.8 PERCENT OF GNP. INFLATION
FEARS ARE INCREASING WITH RECENT DEPRECIATION OF THE
CANADIAN DOLLAR, AND GOC IS CONCERNED THAT MAJOR INCREASE
IN DEFICIT WOULD ADD DUEL TO INFLATION, INCREASE DOWN-
WARD PRESSURE ON CANADIAN DOLLAR, AND REDUCE CONSUMER
CONFIDENCE ALONG WITH BUSINESS INCENTIVES TO INVEST.
FEDERAL GOVERNMENT WOULD HAVE LIKED DROVINCES TO HAVE
CUT TAXES, AS THEY MOSTLY HAVE PROPORTIONATELY LOWER
DEFICITS, BUT THEY HAVE GENERALLY REFUSED TO GO ALONG.

5. ON THE OTHER HAND, POLITICAL IMPERATIVES TO "DO SOME-
THING" ABOUT UNEMPLOYMENT ARE PROBABLY IRRESTIBLE. WEAKER
OUTLOOK FOR ECONOMIC PERFORMANCE THIS YEAR (SEE OTTAWA
1746) DOES SUPPORT NEED FOR FURTHER FEDERAL ACTION.

6. BUDGET WILL CLEARLY BE HIGHLY POLITICAL, AND OF COURSE
SUBJECT TO MODIFICATION BY WHATEVER PARTY IS IN POWER .
AFTER THE ELECTION. WE EXPECT IT WILL ATTEMPT TO MAKE
CONCESSIONS TOWARDS JOB CREATION AND GREATER CONSUMPTION
AND INVESTMENT SPENDING, BUT IN A MANNER THAT WILL NOT
ADD GREATLY TO FEDERAL DEFICIT. IN THIS WAY, IT WILL
HOPE TO DEFUSE POLITICAL OPPOSITION, ADD SOME ECONOMIC
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STIMULUS, AND STILL MAINTAIN MORE THAN A FIG LEAF OF
FINANCIAL RESPONSIBILITY. WAYS OF DOING THIS WHICH MAY
BE PUT FORWARD IN BUDGET MONDAY INCLUDE MORE ONE-SHOT
INCOME TAX CUTS FOR CONSUMERS, SOME FURTHER JOB CREATION
AND PUBLIC WORKS SPENDING, INVESTMENT INCENTIVES SUCH AS
ACCELERATED DEPRECIATIONAND GREATER INVESTMENT TAX
CREDITS, BUT OFFSET BY REDUCTIONS IN GOVERNMENT SPENDING
IN OTHER AREAS, ESPECIALLY THOSE RELATED TO SOCIAL
PROGRAMS, AND UNEMPLOYMENT COMPENSATION. FAMILY ALLOW-
ANCES FOR CHILDREN COULD BE REDUCED OR ELIMINATED FOR
THOSE AT UPPER INCOME LEVELS AND FUNDS FOR UNEMPLOYMENT
INSURANCE MIGHT BE DIVERTED INTO PROGRAMS DE-
SIGNED TO KEEP PEOPLE WORKING IN MARGINAL AREAS RATHER
THAN PAYING UNEMPLOYMENT BENEFITS. DUEMLING

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